

CHAPTER 12

FEDERAL FINANCIAL ASSISTANCE PROGRAMS

INTRODUCTION

Many agencies receive some type of federal financial assistance. Federal financial assistance is defined as assistance provided by a federal agency in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. The federal assistance can come directly from the federal government or as a subgrant through another state agency.

This chapter is presented to assist you in meeting some of the requirements relating to federal financial assistance programs. Because of the many different types and varied purposes of federal programs, it is not possible to provide detailed instructions for grant and program accounting in this manual. However, there are certain requirements that must be met no matter what type of accounting system is used. Most of those requirements can be found in the following:

Office of Management and Budget's:

Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations

Circular A-87 Cost Principles for State, Local and Indian Tribal Governments

OMB Circular A-133 Compliance Supplement

[OMB publications can be found at <http://www.whitehouse.gov/WH/EOP/OMB/Grants/>]

Catalog of Federal Domestic Assistance

[CFDA can be found at <http://www.cfda.gov>]

Single Audit Act of 1984

Single Audit Act Amendments of 1996

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, known as the Common Rule (Federal Register, Vol. 53, No. 48, March 11, 1988) and the federal grantor agencies' Implementation of the Common Rule

Cash Management Improvement Act of 1990 (31 CFR Part 205)

[The Federal Register home page (<http://www.access.gpo.gov/nara/>) offers links to both the Federal Register and the Code of Federal Regulation (CFR)]

INTERNAL CONTROLS

As a recipient of federal financial assistance, you are required to maintain internal control over the federal programs. The internal controls are to be sufficient so that there is reasonable assurance that you are managing each federal program in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on the federal programs.

ACCOUNTING

OMB Circular A-133 requires agencies that receive federal financial assistance to identify within the agency's records all federal awards received and expended and the related federal programs under which they were received. The identification of the federal programs includes the Catalog of Federal Domestic Assistance (CFDA) number and title, the award number and year, the name of the federal agency, and name of any pass-through entity, as applicable.

If the grants are not accounted for in a separate fund/center on the Auditor of State's system, you must have subsidiary ledgers to account for the funding and the expenditures of each individual grant. These subsidiary ledgers need to be reconciled to the Auditor of State's records on a monthly basis.

For each federal grant or contract, the accounting system used must have the following:

(1) Expenditures charged to the grant:

- (a) Expenditures must be allowable for the grant, benefit the grant, be reasonable in nature and cost, be within the allowable period, and have complete back-up documentation. This includes payroll costs charged to a grant.
- (b) For an employee's time to be charged to a grant, the employee must have worked the time charged to that grant. Adequate records showing the time spent on each grant is to be kept if the employee is not working on the grant 100% of the time.
- (c) When accounts payable is included as expenditures, the agency must have documentation that shows that a product or service has been received but not yet paid. Encumbrances are not in of themselves accounts payable.

(2) Federal funds received:

Account for the amount of the grant award and the amount received to ensure that the grant award is not overdrawn.

(3) Source and amount of matching and other non-federal funds used for the grant:

- (a) Matching shares must be properly calculated. The source of the matching funds must be shown. Matching funds are usually state funds, donations, or in-kind contributions.
- (b) In-kind contributions must have proper documentation to support the value used as matching and show how the grant benefited. In-kind contributions include services donated and other state operations with the same goal as the grant. The federal grantor agency should be contacted for approval of the type of in-kind contributions you plan to use as matching.

The accounting system also needs to include the following:

- (1) The system must minimize the time between the receipt of the federal funds and the actual cash outlay of those funds. Thus, the agency must have an adequate plan to minimize the time federal funds are held by the State.

The Cash Management Improvement Act of 1990 requires the State to pay interest on federal funds (of certain programs) from the time the funds are deposited in a state bank account to the time of the actual cash outlay (the time the state warrant clears the bank). See the Cash Management Improvement Act section later in this chapter.

- (2) Facilitate the preparation of the Schedule of Federal Financial Assistance. The schedule is prepared on the cash basis for the state fiscal year.

The Schedule of Federal Financial Assistance includes the following:

Name of the federal agency that originally granted the funds.
Name of the state agency or other unit subgranting the funds, if applicable.
The program's name.
The Catalog of Federal Domestic Assistance (CFDA) number. *
Under each program, include the following for each grant or contract:
 The grant/contract name.
 The grant/contract number.
 The grant/contract award.
 The federal funds on hand at the beginning of the fiscal year.
 The federal funds received during the fiscal year.
 The federal funds disbursed during the fiscal year.
 The federal funds on hand at the end of the fiscal year.
 Amounts granted to subrecipients.
Totals for the program.
Totals by federal agency.
Grand totals.

- * The federal grantor agency is required to inform the grantee of the CFDA number. State agencies subgranting federal funds are required to inform their subrecipients of the appropriate CFDA Number.

DIRECT COSTS

Direct costs are those that can be identified specifically with a particular grant or contract. Typical direct costs include:

- (1) Compensation of employees for time and effort.
- (2) Cost of materials.
- (3) Equipment.
- (4) Services.

Any cost that is a direct cost but not 100% for a particular grant must be allocated between each grant for which the cost is related and to state funds for portions not relating to federal grants. The allocation must be made on a logical basis and on a basis that represents the direct benefit to the grant. Some federal programs require approval of an allocation plan by the federal grantor agency.

INDIRECT COSTS

Indirect costs are those costs that benefit more than one grant but the effort to allocate to each specific grant is disproportionate to the results achieved. Indirect costs may originate within an agency (i.e., accounting personnel's time which is attributable to several different grants), or outside an agency (i.e., cost of processing documents and warrants by the Auditor of State).

The Auditor of State's Office is an example of a "state-wide" indirect cost. The State Budget Agency does an annual "State-Wide Cost Allocation Plan" which accumulates the state-wide costs and allocates them to all state agencies. See the State-Wide Cost Allocation Plan (SWCAP) section. An agency's accounting personnel's time is an example of a "departmental" indirect cost. These costs must be determined and allocated by the agency.

The general procedure for charging indirect costs to a federal grant is to negotiate an "indirect cost rate" with the federal cognizant agency. This rate should include both the state-wide and departmental indirect costs. The rate and the basis to apply the rate is to be approved by the federal awarding agency. The state agency then applies the rate, charging that cost to the federal grants. The federal share is reimbursed through the normal drawdown procedures.

STATE-WIDE COST ALLOCATION PLAN (SWCAP)

The State Budget Agency does an annual "State-Wide Cost Allocation Plan" which accumulates the state-wide costs and allocates them to all state agencies. See also the Indirect Costs section. The federal share of the state-wide indirect cost is to be paid to the State Budget Agency to reimburse the State's General Fund for the costs incurred by the State in relation to the federal grants and programs. The steps for reimbursement are as follows:

- (1) If the agency receives no federal funds, neither directly nor as "pass-through," it is exempt from cost recovery.
- (2) If the agency receives federal funds, either directly from the federal government or as pass-through from other state agencies, use the Proposed Costs from Schedule A of that fiscal year's SWCAP as indirect cost recovery owed the state. If this number is negative, it may be used to offset future costs. Approval to use this offset must be obtained from the Budget Agency.
 - (A) If the agency is 100% federally funded, divide Proposed Costs by four. Remit quarterly to 1000/440001/100570.
 - (B) If agency has a mixture of funding sources, the Proposed Costs should be allocated to the federal programs, either through an agency's internal, federally approved Cost Allocation Plan (CAP) or through a direct allocation formula.
 - (C) The proposed cost or its allocation should be submitted on journal voucher to the Budget Agency.
 - (1) Debit centers to be charged and credit 1000/440001/100570.
 - (2) Label the JV SWCAP.
 - (3) Indicate the grant period to be charged.
 - (4) Send the JV directly to the Budget Director.
 - (D) An agency may request an exemption from Indirect Cost recovery on a program specific basis. The exemption categories are:
 - (1) Recovery of administrative indirect costs is prohibited by federal law/regulation (please cite authority).

- (2) Federal funds pass-through the agency and the agency incurs no administrative costs.
 - (3) A request may be made that the indirect cost recovery contribute towards the programs mandatory state match requirement for which other funds are not available.
 - (4) The recovery of indirect costs will decrease program effectiveness.
- (3) Submit written exemption requests to the Budget Agency. All exemption approvals will be in writing.

UNALLOWABLE COSTS

The following is a partial list of costs that may not be charged against a federal program per OMB A-87:

- Bad Debts
- Contingencies
- Entertainment
- Governor's Expenses
- Legislative Expenses
- Fines and Penalties
- Costs of Another Grant
- Contributions and Donations
- Interest and Other Financial Costs
- Cost Incurred Outside of Grant Period
- Lease for Empty Offices
- Costs Not Allowed by State Law or Regulations

PROCUREMENT

Procurement for products or services that relate to a federal grant are no different than those for state financed activities. Federal regulations (OMB A-87) require that for a cost to be allowable it must "be consistent with policies, regulations and procedures that apply uniformly to both federally assisted and other activities of the unit of government of which the grantee is a part."

EQUIPMENT

Many federal programs and grants allow equipment to be purchased with grant funds.

Title of equipment purchased by a State agency with grant funds vest with the State. The State agency is to use, manage and dispose of the equipment in accordance with State laws, rules and procedures. The equipment shall be used by the State agency in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by federal funds.

Property records must be kept in compliance with the State rules. The records must include the location and any ultimate disposition data including the date of disposal and the sale price.

Agencies should supplement the Auditor of State's Fixed Asset Inventory system with any additional federal requirements. Records showing proper disposition of the equipment should be maintained at least three years from date of disposition.

The federal awarding agency, the grant agreement, and the Code of Federal Regulations should be consulted to determine if there are any specific requirements for the dispositions of equipment. In most instances, follow state policies in disposition of equipment.

AUDITS

The Single Audit

The Single Audit Act of 1984, amended by the Single Audit Act Amendments of 1996, directs the policy for audits of federal financial assistance provided to state and local governments. The Federal Office of Management and Budget issues the circular that establish requirements pursuant to these Acts. (OMB Circular A-133) The Indiana State Board of Accounts conducts an annual state-wide single audit of the federal funds received by the State of Indiana based on these requirements. Due to these requirements, specific testing of certain federal programs will be done outside of an agency's routine state compliance audit. Upon completion of single audit testing at an agency any federal findings will be listed on the Schedule of Findings and Questioned Costs. The agency will be informed of these findings at an exit conference.

Once the audit is completed, the Indiana State Board of Accounts issues a report. The report is filed as an official document in the State Board of Accounts' office. Copies are submitted to the Bureau of Census as they are the Single Audit clearinghouse.

This report contains various federally required opinions, the Schedule of Expenditures of Federal Awards, financial statements based on state-wide financial activity, Schedule of Findings and Questioned Costs, summary schedule of prior audit findings, and agencies' corrective action plan.

Corrective Action on Findings

Circular A-133 requires agencies to follow up and take corrective action on audit findings. It also requires agencies to prepare a summary schedule of prior audit findings. This schedule shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs. When an audit finding is fully corrected, the summary schedule needs only to list the audit finding and state that you took corrective action. The summary schedule shall describe the planned corrective action and any partial corrective action taken when audit findings are not corrected or are only partially corrected. The summary schedule is to be submitted to the State Board of Accounts timely after requested. The information in your schedule will be incorporated into the Statewide audit report.

The circular also requires agencies to prepare a corrective action plan for any current year audit findings. The corrective action plan shall include the corrective action planned, the anticipated completion date, and provide the name(s) of the contact person(s) responsible for corrective action. This corrective action plan will also be incorporated into the Statewide audit report. The corrective action plan is to be submitted to the State Board of Accounts within ten calendar days after they have an exit conference with the agency officials. The corrective action plans are separate from any response made to a State Board of Accounts' Audit Results and Comments (a non-federal finding, usually a deviation from state policies or procedures).

SUBGRANTING FEDERAL FUNDS

Required Information

If your agency subgrants federal funds to any other a governmental or not-for-profit entity, OMB Circular A-133 requires that you provide each subrecipient certain information. The information required includes the CFDA title and number, award name, award number and year, and the name of the federal agency. You should include this information in your agreements with the subrecipients. If you include state funds with the federal funds, you must inform the subrecipient as to the amount of federal funds they received with each state warrant.

Monitoring

When you subgrant federal funds to another entity you are required to monitor the activities of the subrecipients. The monitoring should be sufficient to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements, and that they achieve performance goals. When the subrecipient is required to be audited, you may accomplish the majority of your monitoring through a review of and follow up on the audit findings. However, with the single audit threshold being raised to \$300,000, your monitoring processes may need to include such things as: analysis of the subrecipients' financial status reports, requests for copies of supporting documentation, limited scope or program specific audits, and on-site testing of entities records. The circular requires that you issue a management decision on any audit findings relating to the federal programs you subgranted within six months after receipt of a subrecipient's audit report. You are also to ensure that the subrecipient takes appropriate and timely corrective action.

PROGRAM REQUIREMENTS

There are fourteen program requirements that are applicable to all or most federal assistance programs. These requirements can be found in the OMB Circular A-133 Compliance Supplement for Single Audits issued by the Office of Management and Budget. Agencies need to determine which program requirements are applicable to each of the federal programs they administer.

CASH MANAGEMENT IMPROVEMENT ACT OF 1990

Purpose

The purpose of the Cash Management Improvement Act of 1990 (CMIA) is to ensure efficiency, effectiveness, and equity in the transfer of funds between State and Federal governments. The requirements of CMIA can be found in 31 CFR Part 205.

Interest

State and federal agencies must minimize the time between the transfer of federal funds to the state and the presentment of the state's checks and warrants or the settlement of EFT payments for program purposes. CMIA requires the state to pay interest on federal funds from the time the funds are deposited in a state bank account to the time of the actual cash outlay (the time the state warrant clears the bank). Interest can be avoided if approved funding techniques are used. These techniques are described later in this chapter.

The interest will be based on the annualized rate equal to the average equivalent yield of 13-week Treasury Bill auctioned during the state's fiscal year. This interest rate will be provided each year to the state liaison by the federal government. Federal funds cannot be used to pay the interest.

CMIA also provides for the federal government to pay interest when state funds are used in advance of receipt of federal funds. However, this should only occur because of actions of the federal government.

State Liaison

A state liaison person is to be appointed to oversee the implementation of CMIA and be the state's contact person. Indiana's Liaison is at the State Budget Agency.

Part of the liaison's responsibility will be to draft the Treasury-State Agreement. This agreement is to include:

Federal programs to be covered
Each program's funding technique
Each program's clearance pattern methodology (if required)
Interest calculation methodology

The liaison will require the cooperation of state agencies that have federal programs that are covered by CMIA to develop the above items.

Program Criteria

All major federal assistance programs must be tracked. A major program is one that meets the following criteria:

Total Federal Program Funds Expended by the <u>State Between</u>	A Major Federal Assistance Program is One With <u>Expenditures of</u>
\$100 Million and \$1 Billion	\$ 3 Million
1 Billion and 2 Billion	4 Million
2 Billion and 3 Billion	7 Million
3 Billion and 4 Billion	10 Million
4 Billion and 5 Billion	13 Million
5 Billion and 6 Billion	16 Million
6 Billion and 7 Billion	19 Million
over 7 Billion	20 Million

Note that the above criteria is based on the amount of federal funds expended by the State as a whole and not for the individual state agencies. The State's liaison will contact agencies that have federal programs that are to be covered.

Programs Exempt From CMIA

The following list is programs that are generally exempt from CMIA:

<u>CFDA #</u>	<u>Program Name</u>
10.550	Food Distribution - Noncash
10.551	Food Stamps - Noncash
10.665	Schools and Roads Grants to States
39.003	Surplus Personal Property - Noncash
66.458	Capitalization Grants for State Revolving Funds
84.032	Guaranteed Student Loans
84.038	Perkins Loan
84.063	Pell Grant Program

See the current CMIA agreement for up to date exemptions.

State Agencies' Responsibilities

State agencies are responsible for:

- Determining the best funding technique and clearance pattern methodology for each of the agency's programs.
- Developing the clearance patterns for federal funds by program.
- Tracking drawdowns of federal funds by program.
- Calculating interest owed and due.
- Providing support documentation upon request.
- Providing interest calculations and other information to the state liaison.

Funding Techniques

For each program included in the Treasury-State Agreement, a funding technique must be selected. In choosing an option, consideration should be given to the State's long term cash management strategic plan, reporting and administrative burdens, interest liabilities and timing needs. The funding techniques include:

Zero Balance Accounting

Federal funds are requested and received the same day warrants are presented or EFT payments are settled. Neither the federal government nor the State will incur an interest liability when this funding technique is properly applied.

Estimated Clearance

Based upon clearance patterns, funds are requested on day prior to the expected presentment of checks, or the settlement of EFT payments. Neither the federal government nor the state will incur an interest liability when this funding technique is properly applied.

Average Clearance

Average clearance is a form of Estimated Clearance. This technique requires only one drawdown per period. It is a method of transferring funds to the state based on the dollar-weighted average number of days required for funds to be paid out by the state after a disbursement. On the drawdown date, state interest liabilities are equally offset by federal interest liabilities. There is no net interest liability for the period.

Pre-Issuance Funding

The state requests federal funds no earlier than three business days before it initiates EFT payments or issues warrants, unless otherwise justified. The state will incur an interest liability from the day federal funds are credited to a state's bank account to the day they are paid out to the ultimate program recipient (the day the warrants clear the bank). With this funding method the state will always incur interest.

Summary of Funding Techniques

<u>Funding Technique</u>	<u>Timing of Request</u>	<u>Check Clearance Pattern</u>	<u>Interest Calculation</u>
Zero Balance	Day of presentment	Not Required	Not Required
Estimated Clearance	Day before day of presentment	Required	Not Required
Average Clearance	Day before avg. number of days of presentment	Required	Not Required
Pre-Issuance	No more than 3 business days before day of issuance	Required	Required

Check Clearance Patterns

Once funding techniques have been selected, the next step is to determine whether clearance patterns have to be developed. The Zero Balance Accounting is the only funding technique which does not require a check clearance pattern. When required, clearance patterns will be used to schedule drawdowns (business days must be used) and to support the calculation of interest (calendar days must be used).

A separate clearance pattern may be developed for an individual program. A composite clearance pattern may be developed for a logical group of programs which have the same disbursement method and which can reasonably be expected to have comparable clearance activity. A composite clearance pattern for a group of programs is to be applied separately to each program when scheduling drawdowns or calculating interest.

The standards for clearance patterns are:

- They must be auditable and accurately represent the flow of federal funds.
- The methodology used to develop the patterns must result in a reliable representation of a program's clearance activity throughout the fiscal year.
- Clearance patterns must be dollar weighted and can be developed prospectively to isolate the warrants by program.
- The pattern must be based on three consecutive months of data.
- Clearance patterns shall not include or reflect federal funds paid out for administrative expenses, unless a pattern is developed specifically for the funding of administrative expenses.
- Must be certified as to accuracy by the State's CMIA coordinator or his/her representative.

The three common clearance pattern methodologies are:

Actual Activity

This method is based on the actual checks or warrants that clear the bank account. It will provide the greatest level of accuracy.

Statistical Sampling

The procedure for this method is the same as above except that the universe of checks establishing the dollar percentages are chosen by a historical sample over a period of time.

Average Daily Balances

This clearance pattern is based on the average daily balance of federal funds on hand.

For more details and any questions concerning the programs to be covered, funding techniques, clearance patterns, or interest calculations, contact the State's liaison person.

The State Board of Accounts will include within the scope of their audits, the agencies' compliance with the funding techniques, clearance patterns, and the interest calculations.

CMIA ANNUAL REPORT

The State is required to submit an annual report to the U.S. Department of the Treasury's Financial Management Service (FMS) by December 31. This report is on the federal and state interest liabilities and direct cost reimbursement of the State's most recently completed fiscal year. The State CMIA coordinator will contact state agencies as needed regarding the compilation of this report. After the report has been reviewed and approved by FMS, the exchange of interest liabilities occur on March 1.